Modern Slavery Disclosures in a Voluntary Regime

A Political Cost Perspective

Susi Sarumpaet and Hasan Fauzi

Contents

Abstract

This paper asserts that firms vulnerable to modern slavery issues will avoid political costs and disclose more information about their commitments and systems against modern slavery. The rising global awareness of the issue and the enactment of modern slavery acts in some developed nations give incentives to potentially affected Indonesian listed firms to use voluntary disclosures as a lobbying strategy to prevent or delay such potential legislation in their

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jurisdiction. A content analysis was carried out on the annual reports of 169 Indonesian listed firms published in 2018 to measure the level of modern slavery disclosure. The results were regressed using ordinary least squares regression on the proxies for firms' political vulnerability, namely, firm size and industry sector. Agriculture and construction sectors are considered the most sensitive to modern slavery practices, particularly in a developing economy, due to their employment characteristics, i.e., low educational attainment, easily replaceable, seasonal, and reliance on low-skilled workers. The result supports the notion of political cost hypothesis: firms that are large and belong to sensitive industries disclose more information on anti-slavery programs or activities. This study also finds that consistent with the theories of voluntary disclosures and few empirical findings; in a voluntary disclosure regime, firms tend to reveal only favorable and narrative information; hence it is low in quantity and quality.

Keywords

Modern slavery · Voluntary disclosures · Political cost · Annual reports · Content analysis · Developing country · Indonesia

1 Introduction

Modern slavery and human trafficking have become global issues in the last two decades. According to the Global Slavery Index (GSI) report in 2016, 40 million people were victims of modern slavery, including 25 million in forced labor. GSI also reported that, in business sectors, the highest level of modern slavery practices occurred in the constructions, followed by manufacturing, fishing, and agriculture. In the manufacturing sector, garment and footwear dominated the number of enslaved workers (Table 1).

Responding to such trends, many organizations and governments undertake a large variety of projects to combat trafficking and slavery. Billions of dollars have been allocated to these efforts. Between fiscal years 2001 and 2010, the US government spent more than $1.45 billion on domestic and international anti-trafficking programs, and the funds allocated for FY2019–FY2021 totals $430 million.

Table 1 Global modern slavery by industry sectors

Industry sectors	% of identified slavery
Domestic work	24
Constructions	18
Manufacturing	15
Fishing and agriculture	11
Accommodation and food service activities	10
Wholesale and trade	9
Others	13

Source: GSI report (2016)

Expenditures by other governments and by international organizations have been substantial as well (Weitzer 2020).

Governments around the globe have been introducing legislative measures imposing reporting requirements on corporations to address a range of human rights abuses, including modern slavery. Under the laws, companies have to report on modern slavery risks in their operations and supply chains and the action they have taken to tackle these. The emergence of modern slavery legislation in California, the UK, France, and Australia is giving the business and human rights area an increasing hard law dimension, which affects businesses across the board, primarily if their operations or supply chains encompass developing countries. Canada may be next to regulate modern slavery in global supply chains and follow a global trend in legislative measures to eliminate modern slavery in response to the 2012 UN Guiding Principles on Business and Human Rights (Johnston and Wray 2019). Comparable laws have been introduced across the European Union and in some states and sectors in the USA. Denmark has laws requiring corporate social responsibility reporting, and in Brazil, there is a "dirty list" enabling public shaming of businesses using forced labor. As business reporting on human rights is growing, several jurisdictions will also introduce reporting or due diligence requirements in the coming years.

These modern slavery laws introduce social disclosure regimes requiring large businesses to report publicly on the actions they are taking to address modern slavery in their operations and supply chains. The intent behind such legislation is to facilitate public scrutiny of company statements on modern slavery by civil society, investors, and consumers. Interested parties can access a company's public statement and assess the extent to which a business addresses the risk of modern slavery in its operations or those of its suppliers. The availability of this public information aims to facilitate sharing best practices and further engagement with those companies identified as lagging in their efforts, either because they fail to report or because they produce low-quality or noncompliant statements. In short, such legislation aims to spur companies into action through the power of public scrutiny, coupled with the fear of reputational damage. It is designed to create "a level playing field" for businesses and drive a "race to the top" in terms of respecting human rights.

Some criticisms on the legislations have been voiced out by business and accounting scholars. For instance, Nolan and Bott (2018) were skeptical whether such disclosure requirements could link transparency with accountability and generate substantive (not just procedural) compliance with human rights standards. However, indicators suggest that modern slavery legislation is having an impact, at least in raising awareness of the issue, with the engagement of chief executive officers reportedly doubling in the UK since the act was put in place (Sinclair 2020). Although he was also uncertain whether existing modern slavery disclosure laws will achieve improved conditions for workers at the production end of global supply, but he proposed that mandatory due diligence would probably have a greater impact.

As seen in Table 2, in Indonesia, there are 736,000 people trapped in slavery or 0.29% of the Indonesian population. As such, Indonesia ranks tenth in terms of countries with the largest absolute number of modern slaves. Indonesia has enacted a

Table 2 Top ten global slavery index 2016

Country	Est. number of modern slaves	Est. % of population in modern slavery	Population size
1. India	18,354,700	1.40	1,311,051,000
2. China	3,388,400	0.25	1,371,738,000
3. Pakistan	2,134,900	1.13	188,925,000
4. Bangladesh	1,531,300	0.95	160,996,000
5. Uzbekistan	1,236,600	3.97	31,125,000
6. North Korea	1,110,000	4.37	25,155,000
7. Russia	1,048,500	0.73	143,335,000
8. Nigeria	875,500	0.48	182,202,000
9. Democratic Rep. of Congo	873,100	1.13	4,620,000
10. Indonesia	736,100	0.29	257,564,000

Source: Global Slavery Index 2016

couple of laws on the modern slavery issue, such as (1) Act number 39, the year 1999 on Human Rights; (2) Act Number 13, the Year 2003 on Manpower; and (3) Act no 21, the year 2007 on Eradication of the Criminal Act of the Trafficking in persons. Indonesia has also ratified The International Conventions 1926. However, it has not yet ratified the Slavery Convention and the Supplementary Slavery Convention. Furthermore, the government efforts to counter modern slavery practices seem to focus on individuals working overseas as domestic helpers and ship crews. One instance was the Indonesian Foreign Minister's statement on the treatment by a Chinese fishing company toward Indonesian crews, which was considered a violation of human rights in 2020 (Yasmin 2020).

Since it is one of the most prevalent nations with modern slavery, such disclosure requirements might be a prominent tool to be implemented in Indonesia to combat the issue faced by Indonesian businesses. Even though at present modern slavery disclosures are still voluntary, but large firms and those being exposed to mass media might expect the forthcoming regulations of such mandatory social disclosures following the global trends. Similar to the figures shown in Table 1, forced labor in agriculture (e.g., in the palm oil and tobacco sectors) and construction sectors is among the most prevalent forms of modern slavery in Indonesia. Indonesian listed firms are at risk of being exposed to global human rights abuses, such as forced labor and human trafficking. Local and international organizations might scrutinize the companies' operations and reports, especially those in the industry where modern slavery has been indicated. More importantly, international investors in the share markets might be affected too. Anticipating these pressures and forthcoming regulations, Indonesian listed firms will need to have a strategy to avoid the associated costs.

This paper asserts that firms vulnerable to modern slavery issues will avoid political costs and disclose more information about their programs and activities against modern slavery. Using the framework of political cost hypothesis (Watts and Zimmerman 1978), we argue that large firms and those belong to sensitive industries will use voluntary disclosures to avoid political costs. In the period of increased global attention on human trafficking and forced labor issues, these high-profile firms will disclose more information about anti-modern slavery programs and activities to avoid the risk of being imposed on the potential legislation.

Previous empirical studies on modern slavery disclosures use legitimacy theory (Parsa et al. 2018), institutional theory (Christ et al. 2019; Flynn 2020), and transparency legislation theory (Voss et al. 2019) to explain corporate responses to the issue using information disclosures in annual reports. In general, the findings are consistent with Flynn (2020) finding that firms in FTSE 100 and higher-risk industries have been more proactive in making these changes and complying with modern slavery mandatory reporting requirements.

Prior studies using UK firms find that the most sensitive industry sectors are manufacturing and accommodation (Flynn 2020b) and clothing and garment (Stevenson and Cole 2018; Voss et al. 2019). In the Australian setting, Christ et al. (2019) reported that many companies disclosing are in the banking and finance, mining, and retailing industries. These companies often use offshore outsourcing strategies and hire human resources from developing countries in the form of external service centers and for back-office transactions (Brudenall 2005). These studies found that firms from these corresponding sectors reported more information in their modern slavery statements mandated by the modern slavery act. However, in a developing economy that relies on natural resources and residential and business development, such as Indonesia, agriculture, fishing, and construction sectors are considered the most sensitive due to employment characteristics, such as labor-intensive, low-skilled, and seasonal. In this study, we include fishing companies in the agriculture sectors. ILO estimates point to the prevalence of forced labor in industries such as construction, manufacturing, agriculture, accommodation, and retail/wholesale (ILO 2017). Therefore, this study analyzes the annual reports of Indonesian listed firms and find out whether they contained information on forced labor, human trafficking, and other human rights issues that have become the major issues in the modern slavery.

This paper contributes to the existing literature by improving our understanding of how firm size and certain industry sectors in a developing country responded to modern slavery by disclosing more voluntary information on the issue. It also provides empirical evidence on how voluntary disclosure is used as a tool by managers to avoid political costs associated with potential reporting regulations in the human rights issue.

The finding of this study offers some implications for policymakers. First, the different levels of modern slavery disclosure by firms in different sizes and industry sectors might help authorities in risk-profiling strategies and setting up appropriate policies. Second, the low level of quantity and quality of modern slavery disclosure in a voluntary regime indicates companies' low transparency in reporting risks and actions to tackle modern slavery within the organizations or their supply chains. Governments of similar circumstances might use this finding in considering adopting mandatory reporting requirements to improve transparency and accountability. Along with similar findings of studies from other countries, this study may also support the need to establish a global standard of mandatory modern slavery disclosures.

2 Firm's Incentives to Disclose Modern Slavery Information

Previous studies on the motives for modern slavery disclosures are very limited to the best of our knowledge and come from developed counties. Modern Slavery Act enacted in 2015 in the UK and in 2018 in Australia requires firms in the jurisdictions to file a modern slavery statement. These prior studies use the institutional lens to discover the motives for corporate modern slavery disclosures. For instance, Christ et al. (2019) use institutional theory as a general classificatory scheme from which to discuss how, given the results in a noncoercive institutional environment, they might best be advanced in the Australian context. Combining institutional theory with legitimacy theory, Flynn (2020b) asserts that the transparency in supply chain provision represents an institutional pressure on firms to combat modern slavery. Firms respond to such institutional pressure by adjusting their policies and practices according to the expectations of institutional stakeholders and maintaining social legitimacy.

Modern slavery disclosure in Indonesia is still voluntary. Despite the Financial Service Authority's corporate governance disclosure items recommended for listed companies (OJK 2015), there are no sanctions or penalties imposed on those noncompliant. Therefore, this literature review focuses on the conceptual framework of prior studies in similar topics, such as social responsibility and environmental disclosures in a voluntary regime.

In addition to institutional theory, previous studies on the social responsibility-related topics approach the issue of voluntary disclosures incentives using two different perspectives – social or economic motives. The social perspectives rest mainly with legitimacy theory (Birkey et al. 2018; Burmester 2019; Parsa et al. 2018; Guthrie and Parker 1989; Patten 1992), stakeholder theory, (Benlemlih et al. 2018; (Clarkson 1995; Mitchell et al. 1997; Roberts 1992), social contract theory ((Muttakin et al. 2018, Shocker 1973), and accountability theory (Parsa et al. 2018; Gray 1992; Gray and Owen 1988). The economic perspective of voluntary disclosures in environmental and social issues, for example, has two main branches – proprietary cost theory (Li et al. 2017; Nahar et al. 2020; (Yue et al. 1997) and political cost theory (Enache and Hussainey 2020; Patten and Trompeter 2003; Walden 1993).

Social theories that have emerged in the past two decades are generally rooted in the concept of a social contract (e.g., Shocker 1973) between a social institution (including a business) and its society. This implies that corporations have an unwritten social obligation to act according to society's expectations (O'Donovan 2002). An ethical or normative approach seems inevitable from a social perspective. In the voluntary social disclosure context, this means that firms are obliged to undertake initiatives as part of their corporate social responsibility (Deegan 2000; O'Dwyer 2002). Legitimacy theory and the managerial perspective of stakeholder theory also take a positive approach. They recognize how corporations undertake different strategies to manage the influence of different stakeholders and prioritize more powerful stakeholders.

Social theories view voluntary disclosure as a communication tool. This tool is used by corporations to convey their accountability and social responsibility and to maintain the legitimacy of operations that affect the environment and society. The following sections outline the approaches to voluntary corporate disclosures from the social perspective – namely, stakeholder theory, accountability theory, and legitimacy theory.

Stakeholder theory focuses on the argument that corporations practicing stakeholder management will be relatively successful in conventional performance terms (e.g., profitability, stability, and growth) (Donaldson and Preston 1995). Mitchell (1994) describes stakeholder theory as an attempt to identify which groups are stakeholders deserving or requiring attention and which are not. Their influence in the corporation's survival is highly recognized in social theories that seek to explain why corporations undertake corporate sustainability initiatives. Stakeholders include customers, suppliers, employees, shareholders, competitors, regulators, community, and other elements of society. By identifying each stakeholder group and its interests, management can respond to the issues that might affect its existence (Clarkson 1995).

Stakeholder theory can be broken down into two branches – the positive/managerial branch and the ethical/normative branch. The positive branch posits that organizations will respond to stakeholders asymmetrically, favoring the powerful or those who can have significant impact upon the organization (O'Dwyer 2002). From a managerial perspective, the focus of stakeholder theory is to gain approval for corporate decisions by groups whose support is required for the firm to achieve its objectives (Tricker 1983). On the other hand, the ethical branch explains argues that "all stakeholders have the right to be treated fairly by an organization and that issues of stakeholder power are not directly relevant" (Deegan 2000).

It can be said that the managerial perspective focuses on the identification of important stakeholders and the assessment of such importance in attempts to achieve corporate objectives. The positive branch is similar to the economic perspective of voluntary disclosure in that corporate decisions are based on the interests of the parties with the greatest influence or power. Meanwhile, the ethical branch is opposed to the assumptions of self-interest used in the economic perspective and views the issue normatively. However, both elements of stakeholder theory recognize the potential influence of stakeholders on a company's prospects.

Accountability theory is based on the relationship between principals and agents. In this sense, this theory is similar to agency theory, which is also part of the economic perspective of voluntary disclosure. However, while the underlying principle of agency theory is the self-interest of the agents and principals, accountability theory focuses on the responsibility of the party given the account (i.e., the agent) to undertake actions to the other party giving such account (i.e., the principal). Accountability theory does not consider the self-interest of the parties involved.

Similar to the ethical branch of stakeholder theory, the framework of accountability theory indicates the use of an ethical approach. For example, the theory assumes that the agent must act in a manner which the principal approves (or at least does not disapprove) and must report how such action was undertaken (O'Donovan 2002). In the sustainability disclosure context that corporations provide, information to stakeholders involves some sort of obligation of the agent (i.e., the company) to the principal (i.e., society). This theory does not consider the influence of shareholders, to whom management might perceive greater accountability. This might be justified by treating management and shareholders as either a single party (which may be appropriate if there is a majority shareholder) or as two different parties with congruent objectives.

Stakeholder influence is also acknowledged in legitimacy theory. According to this theory, a legitimacy gap is created when there is a conflict between a firm's economic pursuits and the norms, values, beliefs, and definitions held by the surrounding society (Suchman 1995). When such a gap is seen or noticed by society, a firm becomes politically visible. Bowen (2000) argues that organizations are visible when they can be easily seen by relevant constituents and must respond to constituent demands and perceptions to maintain their social legitimacy (Goodstein 1994; Oliver 1991).

However, because society's perceptions are involved in assessing norms, values, and beliefs, legitimacy theory also suggests that management can influence stakeholders' perceptions by adopting different strategies. Lindblom (1994) classifies these strategies into four categories:

Educating stakeholders about the company's intentions
Changing stakeholder perceptions of issues/events
Distracting or manipulating attention away from the issue/event of concern
Changing external expectations about the company's performance

He also argues that communication is a key factor for a company to be able to carry out any of these strategies for the stakeholders. Modern slavery reporting is one means of communication that enables companies to maintain the congruence between firm intentions and societal perceptions on human rights-related issues and, thus, reduce their sensitivity to the issue.

This argument's ethical perspective is apparent, particularly at point (1) where a company is assumed to have intentions or motives. This is also consistent with the accountability framework (Gray and Owen 1988) that promotes the moral responsibility of companies to make corporate social disclosures to all stakeholders beyond the minimum requirements legally mandated, such as voluntary anti-slavery initiatives and disclosures.

However, legitimacy theory also suggests that in an attempt to reach congruence between the company's objectives and societal perceptions, a company can either substantially or symbolically comply with these societal demands (Savage et al. 2000). Substantial compliance means conducting a substantive activity that involves a real, material change to organizational goals, structures, and processes or socially institutionalized practices. Symbolic compliance means carrying out a symbolic activity that does not involve real changes but attempts to portray corporate activities as compatible with societal norms and values. The former means that the company would improve its actual performance and communicate the results to stakeholders, whereas the latter is similar to the legitimation strategies suggested by Lindblom (1994). In essence, the social perspective of modern slavery disclosure explains firm strategies to respond to societal demands and, hence, reduce their sensitivity.

2.1 Economic Perspective of Modern Slavery Disclosure

Most social responsibility disclosure studies that adopt the economic perspective employ the theories of (1) proprietary cost or (2) political cost. Both theories are similar to each other and underpinned by the same self-interest assumption of positive accounting theory. However, their emphases are somewhat different. The proprietary costs of voluntary disclosure include all types of costs associated with the dissemination of proprietary information, including those imposed by the competitors in a market entry game. Political cost theory focuses on the political components of the proprietary costs as the incentive for visible companies to disclose social responsibility-related information.

Grossman (1981) and Milgrom (1981) posit that firms will disclose information about their "type" to distinguish themselves from poor performers. This view is based on the argument that information asymmetry between seller and buyers occurs in the market (Akerlof 1970). When credible signals are feasible, full disclosure is optimal (Dye 1985). However, discretionary disclosure is possible because of (1) proprietary costs or (2) outsiders' uncertainty about whether firms have private information. It is argued that firms will provide additional information only when the benefits exceed the costs of generating it (Christie and Zimmerman 1994; Dye 1985; Verrecchia 2001). Uninformed observers cannot tell whether the information is withheld because it is (1) bad news or (2) good news but not good enough to warrant incurring the proprietary costs (Verrechia 1983).

Verrecchia (2001) refers to it as potentially damaging and asserts that firms will withhold information to avoid proprietary costs. Information regarding firms' commitment to protecting human rights and modern slavery can be proprietary if interested parties can impose costs on targeted companies based on such information. For instance, in the environmental disclosure context, Bewley and Li (2000) point out some possible costs imposed by stakeholders on environmental information. Government agencies could use such information as a pretext for investigations that would increase compliance costs. Moreover, disclosure of modern slavery can lead to costly litigation, affect the availability of debt and equity capital, benefit competitive green marketing strategies for consumers with the awareness of human rights, and provide ammunition for unions and protection of human rights to press strict laws or boycott company products.

Uncertain financial consequences from endowing private information may prevent firms from disclosing full information regarding their modern slavery prevention systems. Yue et al. (1997) suggest at least three dimensions of uncertainty involved in such disclosures – legal, technical, and political. Changes in legislation drive legal uncertainties. Technical uncertainties exist because other firms or competitors may use modern slavery risks disclosure (e.g., disclosing the list of suppliers) by falsifying such information as being a threat of information leakage and reputational risk, instead of improving transparency (Stevenson and Cole 2018). Political uncertainties are those coming from changes in society's demands, as noted by the social theories.

2.2 The Political Costs of Modern Slavery Disclosure

As indicated above, the development of disclosure theories has been influenced by the advancement of other accounting theories, such as agency theory and positive accounting theory. In agency theory (Jensen and Meckling 1976), a firm is treated as a nexus of contract in which interested parties are trying to maximize their welfare. According to this assumption, it does not make sense to assume that a firm has a motive (e.g., to commit in human rights protection) such as that highlighted by the social perspective discussed earlier. The firm's personalization contradicts the agency concept, which assumes that conflicting individual objectives (although some may be congruent) is brought into disclosure equilibrium.

Using self-interest assumption, Watts and Zimmerman (1978) argue that certain groups in society, such as government and nongovernment organizations, trade unions, and consumer groups, act upon their own interests to maximize their utility. These groups of stakeholders will lobby the political sector to impose costs on corporations through wealth transfer devices, such as taxes, wage claims, product boycotts, and subsidies. It seems that the notion of proprietary costs is more comprehensive than political costs because proprietary costs include political costs and other costs (e.g., competition in a market entry game). However, most studies of the economic motives of environmental and social disclosure have used the notion of the political cost due to the difficulty of measuring the other types of proprietary costs. For instance, proprietary costs are found in a couple of studies (Li et al. 2017; Nahar et al. 2020; Yue et al. 1997; Cormier and Gordon Irene 2001; Filbeck and Gorman 2004), whereas the many studies have used political costs (Enache and Hussainey 2020; Patten and Trompeter 2003; Walden 1993; Cahan and Elmendorf 1997).

Watts and Zimmerman (1978) suggest that the magnitude of political costs is highly dependent upon political visibility. Politically visible firms easily attract public attention and become the potential targets of interested parties. These firms need to address visibility issues in order to reduce public attention and its consequences. In order to do so, these firms may employ a variety of devices, such as a media campaign, government lobbying, and discretionary accounting practices to reduce reported earnings. Several studies provide evidence that visibility triggers public scrutiny, which leads to political costs and gives incentive for corporate responses to social, environmental, and political issues (e.g., Belkaoui 1989; Friske 1994; Gill-de-Albornoz et al. 2005). The following sections will discuss the firm's size and industry sector as two proxies of political costs that give incentives for firms to voluntarily disclose information regarding their systems and initiatives to combat modern slavery and other forms of exploitation.

2.3 Firm Size as Proxy for Political Cost in Modern Slavery Issues

Watts and Zimmerman (1978) argue that certain groups in society, such as government and nongovernment organizations, trade unions, and consumer groups, act upon their interests to maximize their utility. These groups of stakeholders will lobby the political sector to impose costs on corporations through wealth transfer devices, such as taxes, wage claims, product boycotts, and subsidies. A firm sensitivity to such political costs can be defined by its characteristics that attract the attention of these stakeholders, such as firms' size and its industry profile. For instance, in environmental issues, previous studies consider firms in certain industry sectors as the most environmentally sensitive and therefore are imposed on high political costs (Buhr 1998; Deegan and Gordon 1996; Patten 1992).

Firm size is probably the most popular indicator of firm sensitivity. This is consistent with the notion of the size hypothesis (Watts and Zimmerman 1978), which posits that large firms are more vulnerable to political costs. However, size also represents a firm's capacity to be engaged and report various programs and initiatives due to the availability of resources or organizational slack. In the voluntary disclosure literature, most studies confirm that corporate environmental disclosure is a function of firm size (e.g., Cho et al. 2012; Griffin and Sun 2013). The findings are consistent across time and place of studies.

This notion is very relevant to the modern slavery issue. For example, only businesses with an annual turnover of more than £36 million and AU $100 million in the UK and Australia fall under the act. Large firms are more visible and, therefore, more prone to political scrutiny. Given the notion of size as a proxy for political cost derived from firm sensitivity of the modern slavery issue, this paper contends that size is a vital incentive for firms to disclose anti-modern slavery information. Therefore, it is hypothesized that

H1: Corporate modern slavery disclosure is positively associated with a firm's size.

2.4 Industry Type and Modern Slavery Disclosures

Industry type has also been used extensively in the literature as a proxy for political sensitivity or visibility (Mitra and Larry Crumbley 2003; Moratis and van Egmond 2018; Walden 1993). Watts and Zimmerman (1978) contend that, like size, industry type is a weak proxy for firm visibility because firms in the same industry usually have a similar size. In the modern slavery context, industry type should be able to proxy for political vulnerability better than size. This is because particular industries are inevitably associated with potential modern slavery practices. Likewise, modern slavery regulations, protests, and critics normally target firms in the industries sensitive to the issue. This indicates that these industry sectors receive more attention due to their sensitive relationship to modern slavery and other forms of exploitation.

Firms in the agriculture and construction industry are perceived to have higher risks of slavery than those in the banking industry. This might not be the case in other issues. For example, concerning antitrust concerns, large firms are naturally more vulnerable to political scrutiny than small ones irrespective of the industry sector in which they operate. Furthermore, geographical and economic contexts might have a different impact on the sensitivity of the industry sectors to modern slavery. Robinson (2013) highlights instances of slavery in the hospitality sector within developed countries. Examples include individuals working as cleaners, cooks, kitchen hands, and even debt-bonded entertainers who were forced to perform at venues across the USA.

In developing countries, the agricultural sector is more prominent at high risk for forms of labor exploitation. The ILO places agriculture alongside construction, forestry, and fishing as the sector with the fourth highest proportion of forced labor victims worldwide. The characteristics of employment within these sectors with workers easily replaceable and reliance on low-skilled seasonal labor make these sectors vulnerable to modern slavery.

As mentioned earlier, larger firms are not necessarily more sensitive to modern slavery issues if they do not belong to a sensitive sector. Therefore, the sensitivity of a firm's characteristics may be the key factor. A limited number of prior studies of modern slavery disclosure has focused on firms in sensitive industries, such as clothing and garments (Stevenson and Cole 2018; Voss et al. 2019). However, Flynn (2020) included all types of industry in a study on modern slavery statements by UK companies. Using 350 sample companies, he finds that, compared with finance and insurance, which serves as the reference category, manufacturing, construction, wholesale, and retail, accommodation and food, transport, and other industries besides are more likely to give effect to the reporting requirements of the UK Modern Slavery Act. In fact, other industries have a higher probability of compliant behavior than finance and insurance except for real estate, public administration, and mining.

The sensitivity of firms in the agriculture and construction sector means that they are more vulnerable to the political pressures on the potential reporting standards or regulations in modern slavery. Consequently, there are more incentives for these firms when it comes to using voluntary disclosures to reduce the political cost associated with such pressures. This leads to the following hypothesis:

> H2: Firm in agriculture and construction sectors are more sensitive to modern slavery issues, and therefore, will disclosure more information about their systems and commitments against modern slavery.

3 Research Design

3.1 Data Sources

The population for this study is 600 firms listed on the Indonesia stock exchange in 2018. Based on data availability, the final sample consists of 169 listed across all industry types. The data is taken entirely from secondary sources using the archival method. Secondary data have been used extensively in social responsibility research due to its relative ease of access, opportunities for research replication, and reduced likelihood of researcher or respondent bias skewing the eventual findings (Trzesniewski et al. 2020).

Corporate annual reports were used to assess corporate modern slavery disclosures, which were collected by downloading softcopies from the Indonesia Stock Exchange (IDX) website. Majority of research in voluntary disclosure uses corporate annual reports to measure the firms' levels of information to their stakeholders. In addition, corporations may use other types of communication media to convey information, such as sustainability reports and corporate websites. Exclusive focus on annual reports is likely to result in an incomplete picture of reporting practices. Therefore, some studies use other forms of corporate reports in addition to annual reports. In this study, the annual reports were chosen as the sources of data to assess the level of modern slavery disclosure because it represents the most important document used by an organization to convey a view of its operations to the public and it is automatically sent to all shareholders. Data for the predictor variables, size, and industry type were extracted from external databases OSIRIS and, when unavailable, from company annual reports.

3.2 Predictor Variables

Two predictor variables were used in the model, and data were collected for the financial year-end 2018. Firm size was operationalized in terms of total asset. Following previous studies on the relationship between firm size and voluntary disclosure (e.g., Clarkson et al. 2008; Frost 1999; Zheng et al. 2019), this study uses a firm's total asset as a proxy for firm vulnerability on modern slavery.

The industry classification used in this study initially comes from the Indonesia Stock Exchange Fact Book 2018. It classifies the industry into nine sectors (see Table 4). There are 20 sub-sectors for the manufacturing sector and 5 sub-sectors in another sector called banking, credit agencies other than the bank, securities, insurance, and real estate. The industry groups in this study were reclassified into two sectors to reveal the sensitivity of the industry to the modern slavery: (1) sensitive industry groups which consist of agriculture and construction sectors and (2) less sensitive industry groups which consist of the sectors. The establishment of such a grouping means that the variable "industry" in this study is a category variable. Previous studies have used an industry dummy variable in the analysis (Flynn 2020b; Milne and Patten 2002; Patten and Trompeter 2003).

3.3 Content Analysis and Modern Slavery Index

We use content analysis to measure the level of information contained in the corporate modern slavery disclosures. Weber (1990) defines content analysis as a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending on the selected criteria. This method has been widely used in studies assessing the quality of information, including in the modern slavery disclosures area (Christ et al. 2019; Flynn and Walker 2020a; Voss et al. 2019). This study generally counts any passage in corporate reports that mentions or relates to modern slavery issues. This study only counts once for each item in the modern slavery index to avoid the repetition of disclosure information in different parts of a report that may inflate the results.

A researcher and an independent research assistant performed a pretest of the coding activity, using the research instrument keywords and decision rules established. Classification schemes and a set of keywords allowed the independent coder to determine "what" and "how" the coding was to be carried out. Several minor discrepancies were found when comparing the pretest results between the two coders. These are related to a lack of definition in disclosure categories and omission of some items in the instrument by either coder. The researcher and independent coder discussed these uncertainties in coding and reached a common agreement on correct classification. Revisions were undertaken to both the decision rules and research instruments accordingly. Although the researcher and the independent coder believed pretesting the instrument had produced high levels of coding reliability, the final pretesting was formally assessed using content analytic reliability measures.

Often, the establishment of a disclosure index for a particular study is influenced by the study's construct. For example, Al-Tuwaijri et al. (2004) only consider negative environmental disclosures, concerning issues such as pollution and litigation, in mandatory environmental reports in the index. This is to exclude information they consider part of a "greenwash" strategy in annual financial reporting. On the contrary, Clarkson et al. (2006) developed an environmental disclosure index that includes only voluntary environmental disclosures and excludes mandatory disclosures. They argue that, based on the theory of voluntary disclosure, firms with superior environmental performance have an incentive to disclose more environmental information. Thus, the assessment should be based only on voluntary disclosures. Other indices combine both mandatory and voluntary disclosure in the index (Freedman and Jaggi 2005; Wiseman 1982) simply to accommodate all types of information.

Although the more sophisticated indices may be considered more accurate in assessing the level of disclosure, directly measuring disclosure quality is difficult (Botosan 1997). As a result, researchers tend to assume that quality and quantity are positively related. Some scholars measure the quality of disclosure by giving higher scores to more detailed and informative items. For instance, Wiseman (1982) rates each disclosed item as 1 for general or short items, 2 for more detailed narrative items, and 3 for information with quantitative or monetary contents. Other researchers use different methods to scale the information but generally award more scores for better quality environmental disclosures (Cormier et al. 2005; Patten 2002).

Previous studies on modern slavery disclosures use an index with several items adopted from Global Reporting Initiatives (Parsa et al. 2018) or seven areas advised by UK Modern Slavery Act 2015 (Flynn 2020b; Voss et al. 2019). In this study, the index developed by Christ et al. (2019) was adopted and modified for the Indonesian reporting context for two reasons. First, the use of Modern Slavery Act reporting areas does not apply to this study since Indonesia has not enacted a Modern Slavery Act. Second, the index is suitable for modern slavery disclosure analysis using corporate annual reports. This is very appropriate to the Indonesian financial

Table 3 Search strings used for modern slavery index

1.	Abuse and violence	Harassment, violence, abuse
2.	Bribery and corruption	Bribery, corruption, gratification
3.	Child labor	Underage, child, under age
4.	Code of conduct	Code of ethic, guidelines, policy, values
5..	Diversity	Equal opportunity, discrimination
6.	Forced labor	Force employment, free to join worker union, illegal workers, collective labor agreement, industrial relation
7.	Human rights	Employee right, right, exploitation
8.	Human trafficking	Trafficking, illegal workers
9.	Minimum wages	Decent remuneration, pay, salary
10.	Risk assessment	Risk
11.	Safety	Health, safe
12.	Screening	Supplier
13.	Whistleblowing	Whistleblowing

reporting setting, which relies heavily on voluntary initiatives. Some modifications were made to the index to adapt it to the local conditions of modern slavery reporting, such as health insurance and safety work environment (BPJS and K3 in the Indonesian setting). Firms with a statement (in their annual report) that contained information on any one of the 14 items were scored 1; firms with a statement that contained information on any two of the 14 item were scored 2 and so forth; and firms with no modern slavery statement were scored 0.

The index used in this study does not assign different scales for more detailed information. Neither does it counts negative scores for negative or meaningless information such as a statement that the company has not implemented or undertaken an anti-slavery program or activities. Only positive information mentioning real implementations are counted. Some search strings were used after reading a sample of corporate annual reports to achieve efficient and effective searching for the information contained in the annual reports (see Table 3).

3.4 Software for Content Analysis of the Modern Slavery Disclosure Index

Qualitative data analysis programs can be used by researchers to help perform content analysis more efficiently and conveniently. In this study, Atlas.ti, a package widely used in qualitative research, was employed. This software quantified modern slavery information in the corporate annual reports by matching its contents with the environmental disclosure index developed for this study.

We used Atlas.ti to assign each modern slavery disclosure item in the sample firm's annual and stand-alone reports a predetermined code in the modern slavery index. First, each annual report in PDF format was stored in a program file or hermeneutic unit (HU) in Atlas.ti version 7. Second, a list of all predetermined codes from the modern slavery index was stored. Each HU was then ready for coding. Coding was done by searching for a sentence, phrase, or paragraph of modern slavery information in the company reports. The search facility is available in Atlas.ti and is similar to the search function in any word processing software. Various strings were entered into the search function to find relevant sentences or phrases. For example, if the word "forced labor" is typed into Atlas.ti's search facility, the program finds the location of that word. Once identified, the whole sentence or paragraph was then read to enable an appropriate category or item from the list of codes in the index to be selected. A code was then assigned to the appropriate piece of information (e.g., sentence, phrase, or paragraph). Sometimes more than one code was selected and assigned to one piece of information. The results of such codings can be summarized by Atlas.ti in a text of spreadsheet, such as Microsoft Excel.

4 Results and Discussion

Results for the content analysis provide an indication of how the sample of Indonesian listed companies accounted for modern slavery reporting in a voluntary regime. While modern slavery act has not been enacted or even proposed by relevant stakeholders, the cases of forced labor and human trafficking have been reported in local mass media, and this might have affected listed firms and provide incentives for listed companies to make such disclosures. As previously stated in research design section, this study classified the companies into two categories of industry sensitivity to modern slavery issues. Agriculture and building construction are considered as sensitive, while the remaining are nonsensitive.

Approximately 76% (121 of 169) of firms disclose at least one item of information about modern slavery in their annual reports or stand-alone sustainability reports. As shown in Table 4, companies belonging to the sensitive industry are more likely to make modern slavery disclosures than their counterparts from the nonsensitive group. More than 88% (30 out of 34) sensitive companies are disclosers, whereas nonsensitive companies only hold 67% of disclosers. With the growing attention on human rights in business entities internationally, particularly in the two sensitive sectors in Indonesia, this finding indicates that modern slavery issue has affected these firms to respond proactively by disclosing information on anti-slavery practices.

Nonetheless, the level of modern slavery by the sample companies are considerably low. Table 1 presents the level of modern slavery disclosures by the sample companies for each disclosure item. With a sample of 169 firms and 13 items in the index, the total firm items disclosed were only 291 or 0.1325 on average with standard deviations of 0.0212.

Table 4 Modern slavery disclosure scores by industry sectors

No. of industry sector	Non-discloser	Discloser	Total
1. Agriculture	4	14	18
2. Mining	3	3	6
3. Basic industry and chemicals	3	2	5
4. Miscellaneous industry	1	5	6
5. Consumer goods industry	13	30	43
6. Property, real estate, and building construction	15	48	63
7. Infrastructure, utilities, and transportation	1	3	4
8. Finance	8	14	22
9. Trade, services, and investment	0	2	2
Total	48	121	169
(A) Sensitive (agriculture and building construction)	4	30	34
(B) Nonsensitive (others)	44	91	135
Total	48	121	169

In general, all items under the theme of code of conduct were disclosed more than the other themes. The code of conduct is the most frequently disclosed item by 69 (41%) of 169 sample firms. In contrast, information regarding assessment is least reported. None of the sample firms has disclosed any information regarding risk assessment concerning modern slavery. This does not mean that no single company mentioned risk assessment at all. Risk assessment in financial or market stability was not assigned as risk assessment in this study. We only considered information about risk assessment related to modern slavery practices, such as risks of potential forced labor in the supply chains or employee outsourcing/subcontracting. This probably explains why screening is also recorded only by one firm, since both items are related under the same theme, assessment.

The least disclosed items are abuse and violence, which is only mentioned in one annual report. However, another item under the same theme, safety, is mentioned by 37 companies in their annual report. Together with minimum wages, this item is compulsory by the Indonesian Ministry of Labour and respective regional governments where the companies or their facilities reside (Table 5).

There are 291 firm items of modern slavery disclosures in the annual reports of the sample firms. The disclosure level is very low, with an average of 0.0202, or each firms on average only disclosed 0.2756 of the 13 items in the modern slavery index used for this study. Furthermore, the typical information provided in the annual reports is narrative and favorable to the disclosing firms. Even when they revealed unfavorable information due to mandatory requirements, they added non-substantive information to compensate.

The following examples show how the firms reported unfavorable information by stating it did not have a code of conduct or an official whistleblowing system in 2018. However, they provided some additional information that the firms committed to promote and support such system or that the code of conduct is very important. Such action is considered the firms' efforts to distinguish "their type" from the poor

Table 5 Modern slavery disclosure index (MSDI) by items

No.	Themes	Subthemes MSDI items	Obs.	Freq	% of disclosers	MSDI Mean	Std. dev.
1	Human rights	Child labor	169	11	6.51	0.0050	0.0190
		Forced labor	169	13	7.69	0.0059	0.0206
		Human trafficking	169	3	1.78	0.0014	0.0102
		Minimum wages	169	51	30.18	0.0232	0.0354
		Human rights	169	12	7.10	0.0055	0.0198
2	Health and safety	Safety	169	37	21.89	0.0168	0.0319
		Abuse and violence	169	1	0.59	0.0005	0.0059
3	Assessment	Screening	169	1	0.59	0.0005	0.0059
		Risk assessment	169	0	0.00	0.0000	0.0000
4	Code of conduct	Diversity	169	27	15.98	0.0123	0.0283
		Whistleblowing	169	40	23.67	0.0182	0.0328
		Bribery and corruption	169	26	15.38	0.0118	0.0278
		Code of conduct	169	69	40.83	0.0314	0.0379
		Totals	169	291	13.25	0.1325	0.0212

Notes: MSDI (modern slavery disclosure index) was computed as the number of item disclosed in the corporate annual reports divided by the total number of items in the MSDI, which is 13

performers (i.e., those who are not committed to implementing the whistleblowing systems or establishing a code of conduct). Moreover, these actions are possible when information asymmetry between firms and their stakeholders occurs (see Akerlof 1970; Dye 1985).

> "The Company now has not had an official (written) mechanism that can be used by whistleblowers. In all its business activity, the Company committed to spending ultimate standard in terms of ethics and behavior and promoting and supporting culture frank and ethical, compliance corporate and terms of corporate governance" (ABBA, 2018 annual report).

> "Code of Conduct is the guideline for conducting and doing business. Any violation of the Code of conduct and Code of business will be penalized following the existing regulation. Until the end of 2018, the Company missed (did not have) the Code of Conduct, etc." (DNET, 2018 Annual Report).

Another example is when the company did not mention that they did not have the code of conduct but it provided less substantial information about their process of establishing such a code of conduct in order to show their efforts in complying with the prevailing laws and regulations. The action of not disclosing bad news is consistent with the notion used in theories of voluntary disclosure that firms will provide additional information only when the benefits exceed the costs of generating it. They will opt to withhold bad information (i.e., the firm did not have the code of conduct) because it may incur the proprietary costs (Verrechia 1983).

> "Colorpak is still in the process of formulating the Code of Conduct to maximize the implementation of a comprehensive Corporate Governance and following the prevailing laws and regulations" (CLPI, 2018 Annual report).

4.1 Correlations Among Variables

As seen in Table 6, the coefficient correlations among the predictor variables, industry, and size, are very insignificant ($p = 9909$), which means that firms in the sensitive industry are not necessarily large and vice versa. When predictor variables do not correlate with each other, the data set is prevented from multicollinearity issue. With regard to the correlations between the explanatory and response variables, size and industry seem to be consistently and strongly correlated with modern slavery disclosure index with correlation coefficients of 0.21 ($p < 0.0009$) and 0.25 ($p < 0.0056$), respectively. Such coefficients strongly indicate that modern slavery index is positively correlated to firm size and of its industry sensitivity. Consistent with prior studies, a higher level of corporate modern slavery reporting is attributed to larger firms and more sensitive industry sectors (Flynn 2020b).

4.2 Regression Analysis

The regression model in Table 7 shows that the model can explain 11 percent of the variation in modern slavery disclosures. The table also shows that the observations fit well with the model because the F values are significant (0.000). As predicted, modern slavery disclosure is positively associated with firm size and industry sector, and each has very significant p values ($p < 0.01$). The larger the firms, the highest the modern slavery disclosures, and the level of such disclosures are higher for firms in the agriculture and construction sectors.

Such a result shows that consistent with the prediction and prior literature, large firms disclose more information about their commitments and systems to tackle the issue of modern slavery disclosure (Voss et al. 2019). This study also supports the

Table 6 Pairwise correlations and significance level

	Msdi	t_asset	Ind
Msdi	1		
Size	0.2542	1	
	0.0009		
Ind	0.2125	−0.001	1
	0.0056	0.9902	

Notes: Msdi, modern slavery disclosure index; t_asset, total asset; and ind, industry sector, 1 for agriculture plantation and building and non-building construction, 0 otherwise

Table 7 Linear regression result of Model

Slave	Coef.	St. err.	t-value	p-value	[95% conf	Interval]	Sig
t_asset	0.000	0.000	3.47	0.001	0.000	0.000	***
Ind	0.062	0.021	2.90	0.004	0.020	0.104	***
Constant	0.077	0.010	7.58	0.000	0.057	0.097	***
Mean dependent var.			0.102	SD dependent var.			0.115
R-squared			0.110	Number of obs.			169.000
F-test			10.241	Prob > F			0.000
Akaike crit. (AIC)			-267.372	Bayesian crit. (BIC)			-261.113

Notes: dependent variable, msdi (modern slavery disclosure index); independent variable, t_asset (total asset); ind (industry sector: 1 for agriculture planation and building/nonbuilding construction, 0 otherwise)

*$p<0.1$, **$p<0.05$, ***$p<0.01$

political cost theory and its size hypothesis (Watts and Zimmerman 1990) by showing that firms are more vulnerable to modern slavery issues and use voluntary disclosure to reduce the potential costs of reporting regulations which have also been indicated in environmental and social disclosure studies (Cormier et al. 2005; Freedman and Patten 2004; Zheng et al. 2019).

5 Conclusion

This paper reports the results for the content analysis of modern slavery disclosure by 169 Indonesian listed companies in their annual reports. As public attention on the issue is intensifying and the modern slavery reporting becoming mandatory in certain countries, an analysis of modern slavery disclosures in a voluntary regime will enhance the understanding of how the firms respond to the issue through reporting mechanisms. The result shows that modern slavery disclosures are considerably low, narrative, and favorable to the reporting entities. This finding supports the framework of voluntary disclosures that firms tend to disclose positive information and be silent on bad news to warrant incurring proprietary costs. It also finds that large firms and those in agriculture and construction, which are more vulnerable to modern slavery issues, disclose more information about their commitments and systems to tackle human slavery and other forms of exploitation to avoid political costs derived from potential legislation.

Some limitations of this study are inevitable and can be used in considering future research. The use of 1-year observation limits the potential information of modern slavery disclosure in the previous years, particularly before the issue became more prevalent and the legislation was not enacted in the UK and the neighboring country, Australia. The use of more extended period data will provide better information on how the increasing global issue might have made effects on modern slavery disclosures practices overtime. Another drawback comes from the content analysis method used in this study, which only counts meaningful sentences to be scored as disclosed items. This does not distinguish the quality of information. Future research might consider different scores disclosure with more detailed and substantial information reported in the annual reports.

This study offers some implications for future research in the corporate modern slavery disclosure. First, in addition to corporate annual reports, other types of corporate reporting media may be used to assess environmental disclosures, because firms may target different stakeholders using different types of reporting media. These include press releases, websites, and separate sustainability reports. In increasing public awareness of environmental issues and improving information technology literacy, further research may include other information sources of modern slavery and other human right issues.

Although discussed in the conceptual framework, some proxies of corporate political visibility in modern slavery, such as profitability, media coverage, and firm reputation, were not included in this study. Media coverage is particularly important in explaining firm modern sensitivity. It has been widely reported in the literature as a driving motive for social and environmental disclosures. Despite being subject to a variety of definitions, reputation is crucial for determining the firm political sensitivity. Including important explanatory variables as proxies for environmental visibility will enhance our understanding of firm sensitivity to modern slavery issue and enrich the analysis.

Finally, given that modern slavery practices and impacts might diverse from one country to another, this study could be extended to a cross-country analysis. This would not only enrich the data but also provide a better explanation of firm motives to reduce political costs associated with issues in human rights concerns.

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